

## 4 ... cut the cost of doing business internationally

**Trade allows a division of labour between countries.** It allows resources to be used more efficiently and effectively for production. But the WTO's trading system offers more than that. It helps to increase productivity and to cut costs even more because of important principles enshrined in the system, designed to make life simpler and clearer.

**Imagine a situation where** each country sets different rules and different customs duty rates for imports coming from different trading partners. Imagine that a company in one country wants to import raw materials or components – copper for wiring or touchscreens for electronic equipment, for example – for its own production.

It would not be enough for this company to look at the prices offered by suppliers around the world. The company would also have to make separate calculations about the different duty rates it would be charged on the imports (which would depend on where the imports came from), and it would have to study each of the regulations that apply to products from each country. Buying copper or touchscreens would become very complicated. That, in simple terms, is one of the problems of discrimination.

Imagine now that the government announces it will charge the same duty rates on imports from all countries, and will use the same regulations for all products, whether imported

or locally produced. Life for the company would be much simpler. Sourcing components would become more efficient and cost less.

**Non-discrimination is just one of the key principles** of the WTO's trading system. Others include:

- transparency (clear information about policies, rules and regulations)
- increased certainty about trading conditions (commitments to lower trade barriers and to increase other countries' access to one's markets are legally binding)
- simplification and standardization of customs procedure, removal of red tape, centralized databases of information, and other measures to simplify trade, known as "trade facilitation".

Together, they make trading simpler, cutting companies' costs. That, in turn, means more jobs and better goods and services for consumers.

**"Trade facilitation"** has become an important subject in the Doha Round negotiations. Red tape and other obstacles are like a tax on trade. The saving from streamlining procedures could be 2%–15% of the value of the goods traded, according to estimates by the Organisation for Economic Cooperation and Development (OECD). The Peterson Institute for International Economics estimates that it could add \$117.8 billion to the world economy (global GDP). The World Bank says that for every dollar of assistance provided to support trade facilitation reform in developing countries, there is a return of up to \$70 in economic benefits.

Africa is already seeing major improvements. For example, under an investment project in the East African Community, delays at border crossings have been slashed from three days to three hours, allowing goods to move much faster between Mombasa port and neighbouring countries. It's no surprise that some business leaders have even said they consider trade facilitation to be the top priority in the Doha Round.

## Streamlining trade



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## 5 ... encourage good governance

**Governments need to be armed against pressure** from narrow interest groups, and the WTO system can help.

Historically, protectionism has taught us about the damage that can be caused if narrow sectoral interests gain a disproportionate share of political influence. Restrictive policies turned into trade wars, which no one won and everyone lost.

The WTO system helps governments take a more balanced view of trade policy. They are better-placed to defend themselves against lobbying from narrow interest groups by focusing on trade-offs that are made in the interests of everyone in the economy.

Restricting imports can look like an effective way of supporting an economic sector. But it biases the economy against other sectors which shouldn't be penalized – for example, if you protect your agriculture, everyone else has to pay for more expensive food, which puts pressure on wages in all sectors.

The WTO system covers a wide range of sectors. If, during a negotiation, one pressure group lobbies its government and pleads to be considered as a special case needing

protection, the government can deflect the pressure by arguing it needs a broad-ranging agreement that will benefit all sectors of the economy. Governments do just that, regularly.

**The rules include commitments not to backslide** into unwise policies. Protectionism in general is unwise because of the damage it causes domestically and internationally.

Particular types of trade barriers cause additional damage because they provide opportunities for corruption and other forms of bad government.

One kind of trade barrier that the WTO's rules try to tackle is the quota – for example, restricting imports or exports to no more than a specific volume each year.

Because quotas limit supply, they artificially raise prices, creating abnormally large profits for companies selling inside this quota (economists talk about "quota rent"). Such circumstances create serious market distortions and these extra profits can be used to influence policies because more money is available for lobbying. These conditions can also provide opportunities for corruption – for example, in the allocation of quotas among traders. That is unfortunately all too common around the world.

In other words, quotas are a particularly bad way of restricting trade. Governments have agreed through the WTO's rules that their use should be discouraged.

Nevertheless, quotas of various types remain in use in most countries, and governments argue strongly that they are needed. But they are controlled by WTO agreements and there are commitments to reduce or eliminate many of them.



**Many other areas of the WTO's agreements** can also help reduce corruption and bad government.

One that has a direct impact via the public sector is the Government Procurement Agreement. This disciplines how participating governments make their purchases, and opens major parts of the procurement markets to foreign competition. In December 2011, a new deal worth an estimated \$80–100 billion per year was struck under the agreement, improving the disciplines and expanding access to these markets.

Transparency (such as making available to the public all information on trade regulations, fees and required paperwork), greater harmony between countries on other aspects of "trade facilitation", clearer criteria for regulations dealing with the safety and standards of

products, and non-discrimination also help by reducing the scope for arbitrary decision-making and cheating.

Quite often, governments use the WTO as a welcome external constraint on their policies: "We can't do this because it would violate the WTO agreements."

Internationally, the WTO is working closely with other international agencies to improve the way global issues are tackled. Around 140 intergovernmental organizations are observers in WTO committees and councils. The WTO is formally an observer in several agencies. The WTO Secretariat works with almost 200 of them in activities such as statistics, research, standard-setting, and technical assistance and training. The extent of the cooperation varies, and it continues to evolve so as to help member governments with their economic policies.

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## 6 ... help countries develop

**Over three-quarters of WTO members** are developing or least-developed countries. All of those in the queue to join are likewise developing countries. Whether the interests of developing countries are well enough served in the WTO is a subject of continuing debate. But even the most critical developing countries acknowledge that the system offers them benefits.

In fact, few economists dispute that properly handled, trade is essential for development.

**All WTO agreements contain special provisions** for developing countries, including longer periods to implement agreements and commitments, measures to increase their trading opportunities and support to help them build the infrastructure for WTO work, handle disputes, and implement technical standards. Least-developed countries receive special treatment, including exemption from many provisions.

The needs of developing countries can also be used to justify actions that might not normally be allowed under the agreements – for example, governments giving certain subsidies.

And the negotiations and other work launched at the Doha Ministerial Conference in November 2001 include numerous issues that developing countries want to pursue.

## 7 ... give the weak a stronger voice

**WTO geopolitics are evolving.** In recent years, developing countries have become considerably more active in all areas of the WTO's work. They made sure development would be at the heart of the Doha Round talks and submitted an unprecedented number of proposals on agriculture and other subjects.

They are active in all WTO councils and committees. They have set up numerous coalitions to increase their bargaining power, particularly in negotiations. Some of these are developing country coalitions; some are mixed, working on shared interests that cut across developed-developing country boundaries.

Until the mid-1990s, the "Quad" – the US, EU, Japan and Canada, then the largest traders – were seen as the most powerful consensus-brokers. Now, any attempt to break a major deadlock has to include at least some of the major emerging economies and representatives of various coalitions, including the least-developed countries.

There wouldn't be much point in a "multilateral" trading system if that weren't the case.

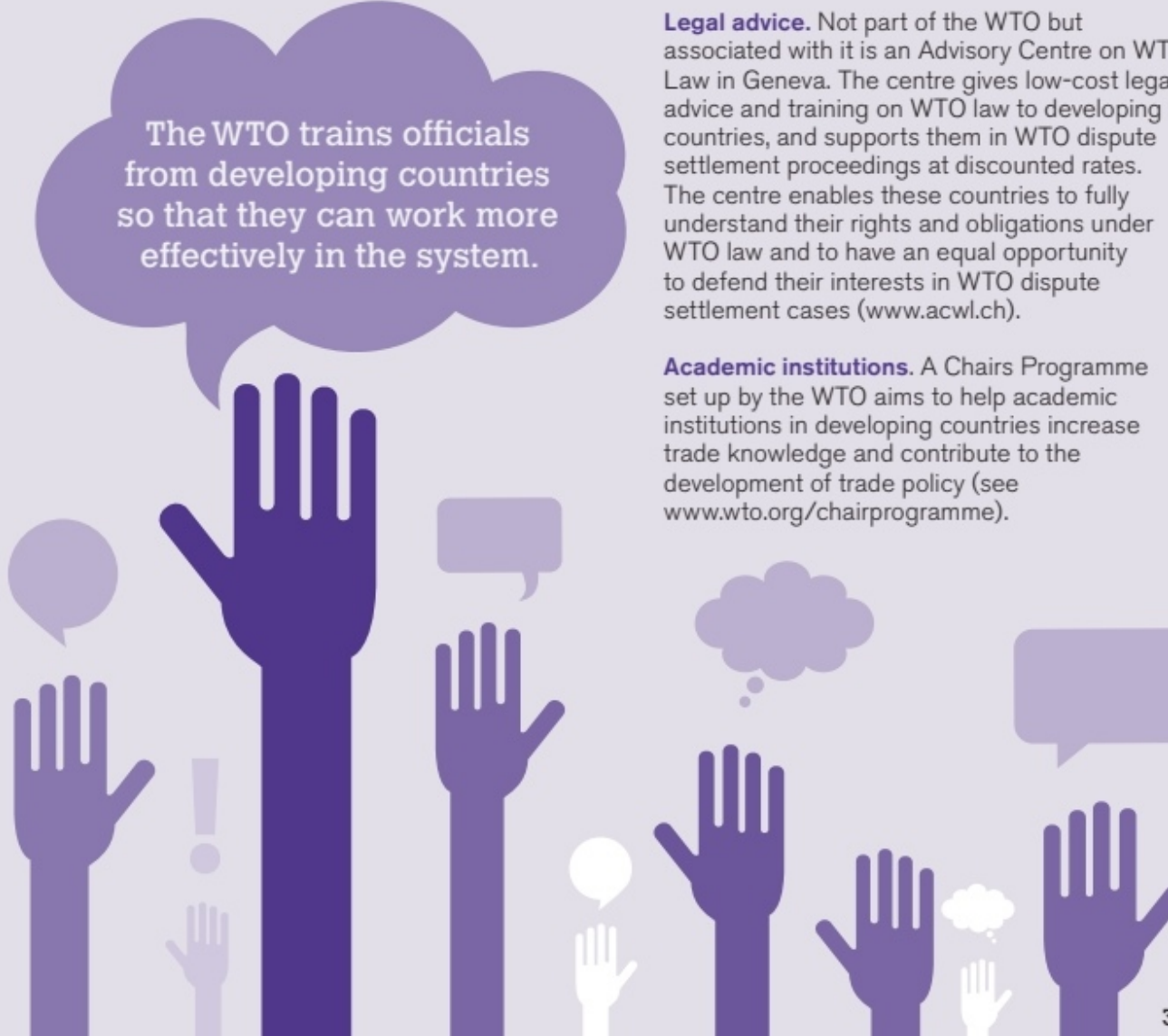
**One important point about the WTO is the practice of reaching decisions by consensus.** Every country has to be convinced before agreement can be reached. Compromise is key: whatever is proposed has to be refined until it is acceptable to everyone or more precisely until it is objectionable to no one. Consensus means there are no dissenters.

**Another is the agreed rules.** All countries, big or small, weak or powerful, have to follow broadly the same rules. There are exceptions, delays or flexibilities for poorer countries, but they are still the same package of rules – the flexibilities are just a way of allowing these poorer countries to play by the rules.

**The rules are the result of negotiations and consensus decisions,** and have been ratified in members' parliaments. The negotiation that set up the WTO, the Uruguay Round (1986-94), was only possible because of a bargain. Developed countries agreed to reform trade in textiles and agriculture – both issues were important for developing countries.



Once the rules have been agreed, all countries are equal under them. That also applies to the dispute settlement system, which is similar to a court. This century, except in a handful of years, developing countries have filed complaints in at least half of all legal disputes, sometimes considerably more. And their complaints are against both developed and developing countries. Without the WTO, these smaller countries would have been powerless to act against their more powerful trading partners.



The WTO trains officials from developing countries so that they can work more effectively in the system.

## And then there's assistance

**Technical assistance and training.** This is an area where the WTO is actively involved in aid. The WTO trains officials from developing countries so that they can work more effectively in the system. That includes training on how to negotiate effectively within the rules. Each year, the WTO organizes around 100 seminars, workshops and other training sessions for these officials. They also come to Geneva for longer trade policy courses.

**Legal advice.** Not part of the WTO but associated with it is an Advisory Centre on WTO Law in Geneva. The centre gives low-cost legal advice and training on WTO law to developing countries, and supports them in WTO dispute settlement proceedings at discounted rates. The centre enables these countries to fully understand their rights and obligations under WTO law and to have an equal opportunity to defend their interests in WTO dispute settlement cases ([www.acwl.ch](http://www.acwl.ch)).

**Academic institutions.** A Chairs Programme set up by the WTO aims to help academic institutions in developing countries increase trade knowledge and contribute to the development of trade policy (see [www.wto.org/chairprogramme](http://www.wto.org/chairprogramme)).



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## 8 ...support the environment and health

**Trade is nothing more than a means to an end.** It could never be more important than protecting the environment or raising the quality of life. What WTO agreements do is to try to make trade support the things we really want, including a clean and safe environment, and to prevent governments using these objectives as an excuse for introducing protectionist measures.

How this works is not always understood. Take a WTO dispute ruling that says a measure designed to protect the environment is illegal under WTO rules. Often, this is misinterpreted to mean the measure is illegal because it conflicts with trade.

In fact, the ruling would say that the action violates trade rules. Typically this could be about discrimination: the measure is tougher on products from some countries than from others or is tougher on products coming from other countries than from domestic producers. If it were equally tough (or equally lenient) on goods from all sources, it would be legal.

That was the basis of a ruling in a WTO legal dispute about gasoline in the 1990s. The same applied in a case dealing with shrimp imports and the protection of sea turtles, when the WTO's Appellate Body went out of its way

to stress that WTO members can, should and do take measures to protect endangered species and to protect the environment in other ways.

**The importance of these concerns is enshrined in the rules.** The Marrakesh Agreement Establishing the WTO includes among its objectives optimal use of the world's resources, sustainable development and environmental protection.

**"The Parties to this Agreement [recognize] that their relations in the field of trade and economic endeavour should be conducted with a view to raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, and expanding the production of and trade in goods and services, while allowing for the optimal use of the world's resources in accordance with the objective of sustainable development, seeking both to protect and preserve the environment and to enhance the means for doing so in a manner consistent with their respective needs and concerns at different levels of economic development ..."**



Preamble to the  
Marrakesh Agreement  
Establishing the WTO

This is backed up by a range of provisions in the WTO's rules. For example, they allow countries to curb trade to protect human, animal or plant life or health, and conserve exhaustible natural resources. They allow subsidies for environmental protection. These provisions can be found in more general rules and in specific agreements on product standards, food safety, intellectual property protection, and so on.

Reforms under the rules, such as cutting industrial and agricultural support, help to reduce waste and environmental damage, and encourage efficient use of resources.



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## 9 ... contribute to peace and stability

**When the world economy is in turmoil,** the multilateral trading system can contribute to stability. Some would argue that this can even contribute to international peace. History is littered with examples of trade disputes escalating into armed conflict.

It's a claim that should not be exaggerated, but there is truth in it. If we understand why, we have a clearer picture of what the system actually does.

**Why was the system set up?** Essentially, it was for two reasons. One was the big-picture need to avoid a repeat of the destructive trade tensions before World War II. The other was countries' pragmatic desire for their producers to trade more easily.

The result was the General Agreement on Tariffs and Trade (GATT), created in 1948, immediately after the war. Its success led to further reforms, and the World Trade Organization (WTO) emerged in 1995. An ever-increasing number of countries have agreed on trade rules that are now almost global. They are committed to the legally binding limits on their trade barriers and subsidies that they have also negotiated.

Sticking to these is self-interest because countries want their trading partners also to play by the rules and stay within their commitments – and just in case pressure from domestic interests is too great, the information on raised trade barriers is shared globally through regular monitoring. By and large, peer pressure works.

Two of the most fundamental principles of the trading system are at work here: helping trade to flow smoothly, and providing countries with a constructive and fair outlet for dealing with disputes over trade issues.

**Before: when protectionism backfired.**

The early 1930s saw a devastating trade war. In the Great Depression, fear that imports would throw more people out of work led governments to raise their trade barriers, thus setting off a vicious cycle of retaliation. This simply worsened unemployment. The world economy spiralled downwards, eventually contributing to the outbreak of World War II. Protectionism can easily plunge us into a situation where no one wins and everyone loses.

**After: restraint and confidence.** Post-war, under the GATT/WTO system trade surged. More importantly, it has been much more stable, even during economic crises. Agreed rules and confidence-building are key.

Confidence helps to avoid the no-win trade wars witnessed in the 1930s. When governments believe that others will keep their trade barriers within agreed limits, they will do the same. They will be in a much better frame of mind to cooperate with each other.

The WTO trading system plays a vital role in creating and reinforcing that confidence. Particularly important are negotiations that lead to agreement by consensus and a focus on abiding by the rules.

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## 10 ...be effective without hitting the headlines

**The negotiations are over.** The chairperson has gavelled the deal through. Ministers have signed it. Parliaments have ratified it. It's taken years and now most of the media have left.

But for the WTO and its member governments, this is just the start.

The deal consists of the agreements or "rules". They aim to help bring us safe food to eat, a good choice of clothing to wear and telephone services with which to call our friends and relatives, and effective medicines at affordable prices. WTO rules can even make it easier to have fun travelling or being entertained in our own homes.

WTO agreements can only do that if they are put into practice effectively – they have to be implemented and monitored. Years of essential, unglamorous work lie ahead.

**What governments have agreed** to put into practice includes:

- lower trade barriers
- trimming red tape in customs and trade
- justifications for restricting imports on health, safety and environmental grounds that are rational, not arbitrary

- disciplines on how they can react when imports increase sharply or the prices of imports tumble
- limits on harmful agricultural subsidies
- access to services markets
- intellectual property protection.

They also want to know that other countries are keeping their promises too – that's a right in addition to their own obligations to keep to the rules. And often they want to see how other countries are putting the rules into practice because they can learn from each other.

**Much of this work is technical and detailed.**

It involves countries sharing information with each other and with the public, on anything within the WTO's scope, from "anti-dumping" investigations to labels listing food ingredients, from copyright law to measures taken to combat bird flu.

It also includes opportunities for countries to comment on each other's actions and sometimes to influence the final outcome.

In the WTO's first 16 years, governments sent in over 10,000 "notifications" just on their regulations for food safety and animal and plant health – very detailed, very technical, but very important for specialists, essential for trade and for health.

This does not make headlines – when it works, few people notice. When there is a problem, that's when it becomes news. So when the WTO is not in the headlines, it's likely that things are going well, at least as far as day-to-day trading is concerned.

**That, in a nutshell** is what the WTO's routine work is about. Without it, the negotiations would be pointless.